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**Finance Committee**

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**HB 3159**

**Brief Description:** Modifying the excise taxation of food products.

**Sponsors:** Representatives Linville, Newhouse, Grant, Kessler, Orcutt, Chandler, Dunn and Kristiansen.

**Brief Summary of Bill**

- Extends the Business and Occupation tax exemption, sales and use tax deferral on manufacturing facilities, and warehouse tax remittance adopted for fruit and vegetable products in 2005 to seafood and dairy products.
- Ends the tax exemptions for fruit and vegetable, seafood and dairy product manufacturing and warehousing on July 1, 2012.

**Hearing Date:** 1/31/06

**Staff:** Rick Peterson (786-7150).

**Background:**

Washington's major business tax is the Business and Occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state, without any deduction for the costs of doing business. The B&O tax rate depends on the activities conducted. The most common rates are 0.471 percent for retailing activities, 0.484 percent for wholesaling and manufacturing, and 1.5 percent for services. There is a lower rate of 0.138 percent for dairy product manufacturing and seafood product manufacturing where the seafood products remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing process.

In the 2005 session the Legislature adopted tax incentives for the fruit and vegetable manufacturing industry. A B&O tax exemption was provided for the canning, preserving, freezing, processing, or dehydrating fresh fruits and vegetables and for selling at wholesale fresh fruits and vegetables canned, preserved, frozen, processed, or dehydrated by the seller and sold to purchasers who transport in the ordinary course of business the goods out of this state.

A new sales and use tax deferral program was created for fruit and vegetable product cold storage warehousing, and related research and development businesses. This program starts July 1, 2007 and expires July 1, 2012.

Firms using the B&O exemption and the sales tax deferral are required to complete an annual survey and provide information on the amount of B&O tax exempt, sales and use tax deferred, number of jobs and the percent of full-time, part-time and temporary jobs; wages by salary band; and number of jobs with employer provided health and retirement benefits. The survey is due each year by March 31st.

In addition, starting July 1, 2007, fresh and/or frozen perishable fruit or vegetable cold storage warehouses of at least 25,000 square feet are added to the warehouse tax remittance program. The remittance is 100 percent of the state sales tax on construction of the warehouse and purchases of material-handling and racking equipment. The taxpayer must initially pay all applicable taxes and then apply for reimbursement to the Department of Revenue (Department).

**Summary of Bill:**

Tax exemptions adopted for fruit and vegetable product manufacturing and cold storage warehousing in 2005 are extended to seafood and dairy manufacturing and cold storage warehousing of seafood and dairy products.

The B&O tax exemption is extended to seafood product and dairy product manufacturing. The exemption applies only to seafood products which remain in a raw, raw frozen, or raw salted state at the completion of the manufacturing process. This exemption also applies to the selling of product to purchasers who transport the goods out of this state. These new exemptions plus the fresh fruits and vegetables exemption are ended July 1, 2012 and a tax rate of 0.138 percent is established for these activities.

The sales and use tax deferral program for fruit and vegetable processing, cold storage warehousing, and related research and development businesses is expanded to include seafood and dairy product manufacturing.

Firms using the B&O exemption and the sales tax deferral are required to complete an annual survey and provide information on the amount of B&O tax exempt, sales and use tax deferred, number of jobs and the percent of full-time, part-time and temporary jobs; wages by salary band; and number of jobs with employer provided health and retirement benefits. The survey is due each year by March 31st.

The Department may extend the March 31st filing deadline for surveys by firms using the B&O exemption and the sales tax deferral if the failure to file is the result of circumstances beyond the control of the taxpayer. These firms must electronically file their forms with the Department.

Cold storage warehouses of at least 25,000 square feet that are used to store dairy and seafood products are added to the warehouse tax remittance program. The remittance is 100 percent of the state sales tax on construction of the warehouse and purchases of material-handling and racking equipment. The warehouse sales tax remittance program for cold storage warehouses used to store fruit or vegetables, dairy products, and seafood products is ended on July 1, 2012.

**Appropriation:** None.

**Fiscal Note:** Requested on January 23, 2006.

**Effective Date:** The bill takes effect on July 1, 2006, except sections 6 through 9 and 11, related to the sales and use tax deferral program, and the warehouse sales tax remittance, take effect July

1, 2007; and sections 12 and 13, which reinstates prior law related to the warehouse sales tax remittance program after a scheduled expiration, take effect July 1, 2012.